



Pick-a-Base The AETC Strategy for the A-76 Cost Studies

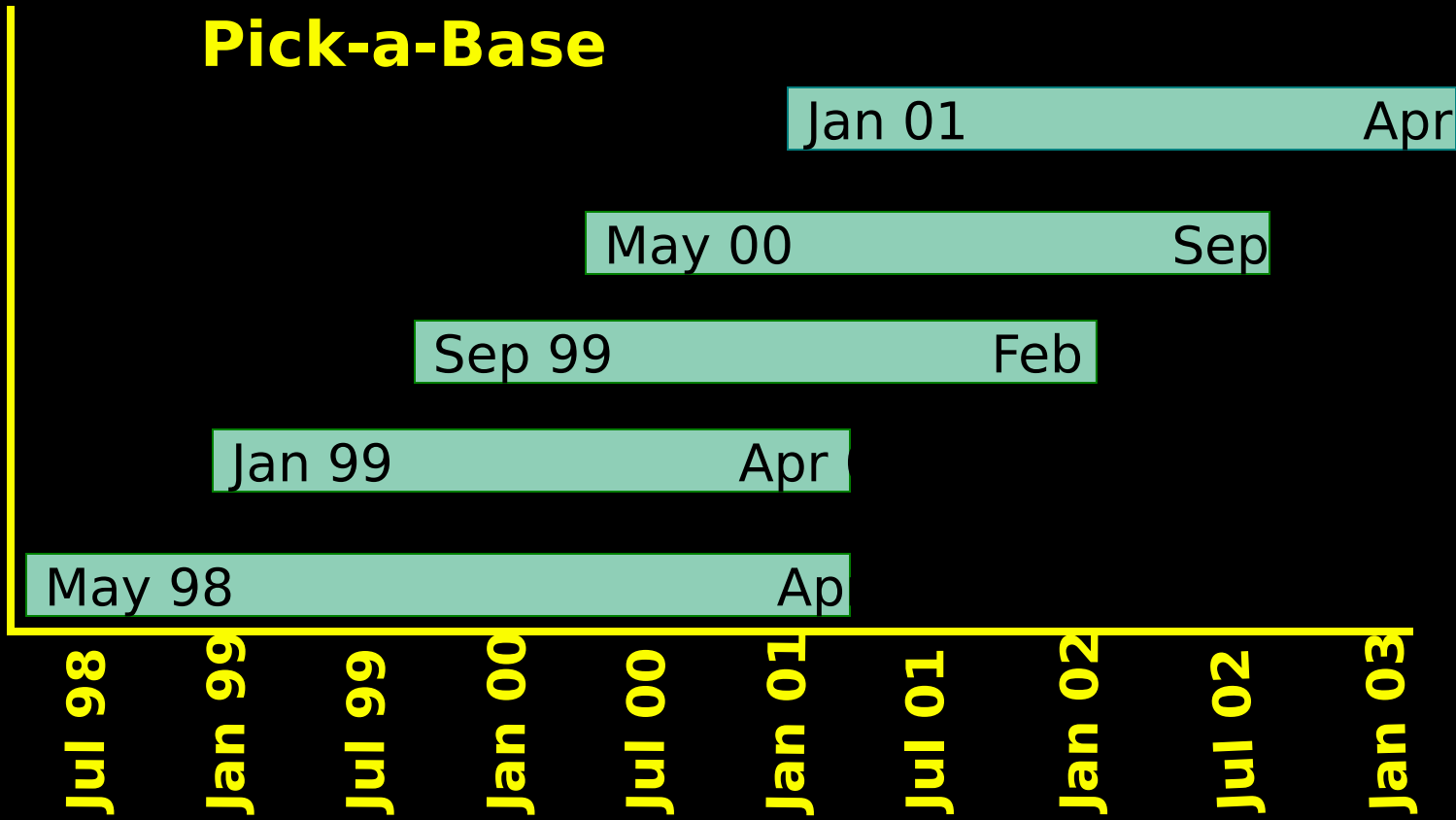
Major Drew Obermeyer
Chief, Contract Mgt Branch
HQ AETC/LGCM

Army-Wide Workshop

BASE

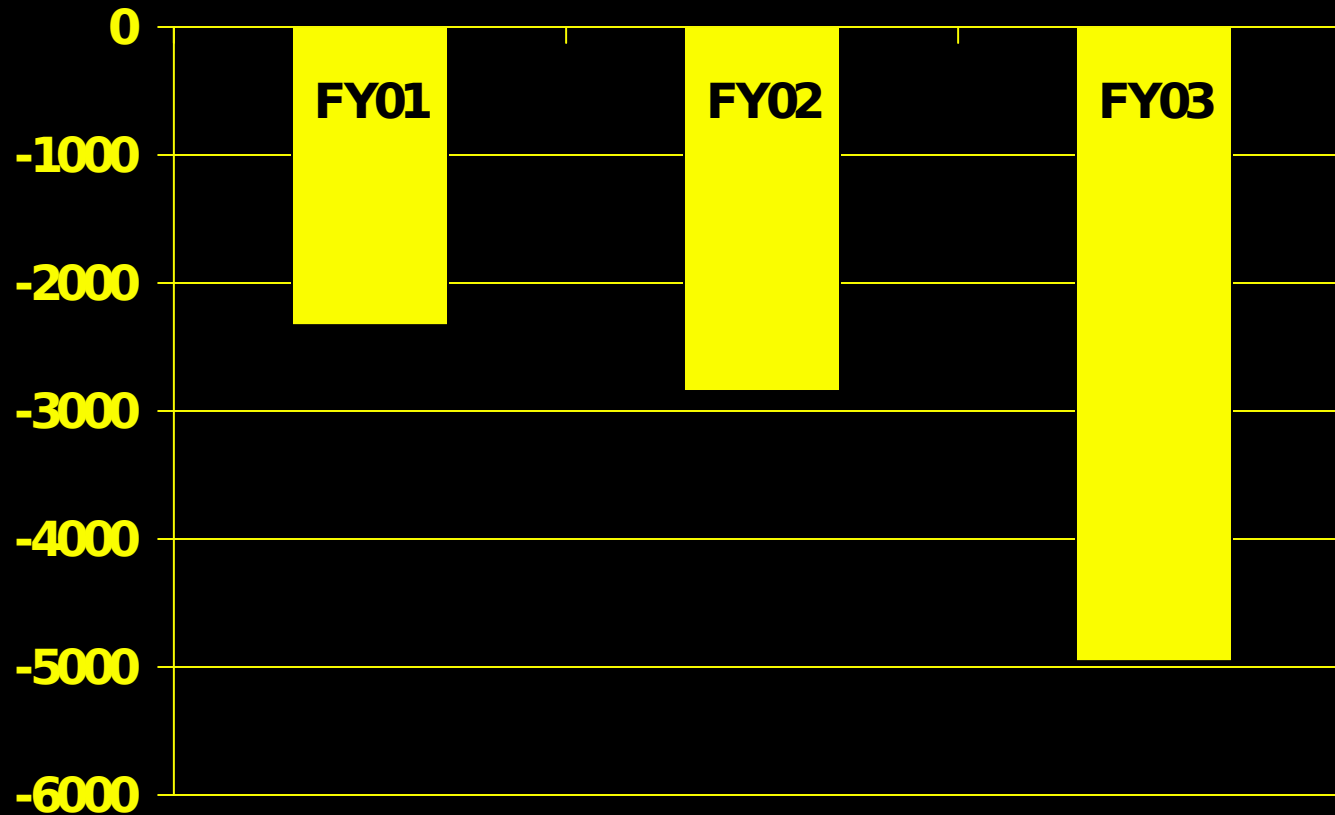
Pick-a-Base

**RANDOLPH
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MAXWELL**



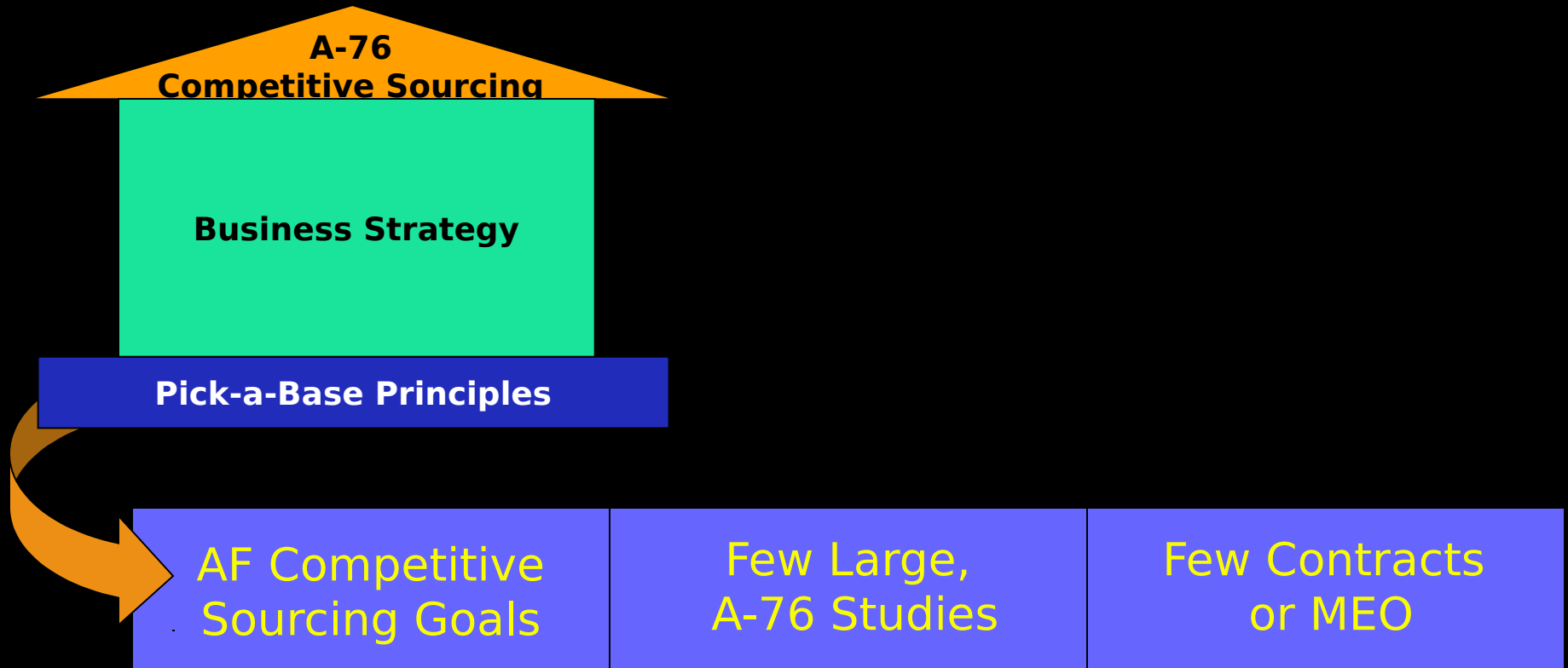


CS&P End Strength Reduction





Foundation “Pick-a-Base Principles”





AF Competitive Sourcing Goals



- Improve performance, quality, efficiency and cost effectiveness of AF activities
- Generate savings for modernization
- Focus personnel/resources on core activities
- Sustain readiness



Few, Large A-76 Studies



- Include every possible support function
- Reduces mission turbulence
- Reduces personnel turbulence
- Larger studies yield larger savings
- Similar to the Vance Model
- Roll in existing contracts where feasible
- Increases synergy and flexibility
- Reduces fragmentation
- Reduces performance management oversight



Outsourcing Average Personnel Savings

Activity Size
(Number of
Positions)

Average
Savings

1 - 25

13%

26 - 50

15%

51 - 100

30%

101 - 300

36%

301 - Up

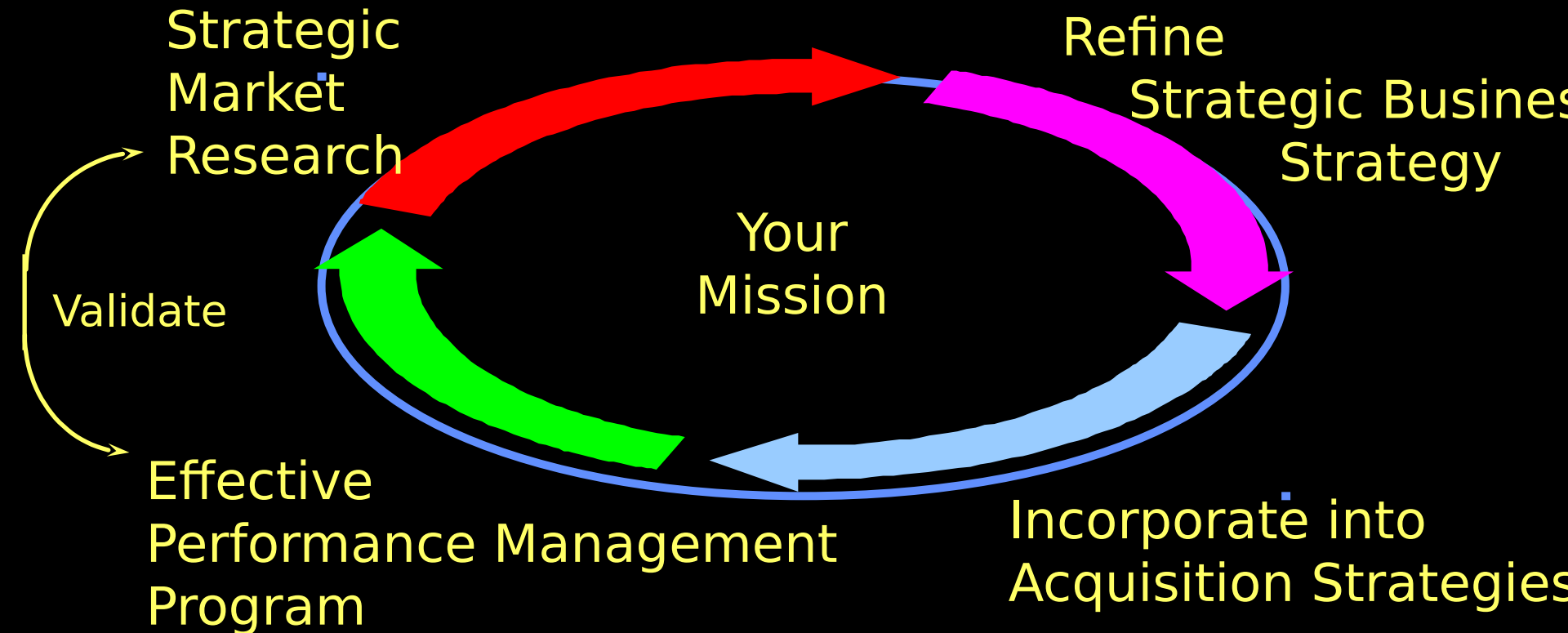
41%



Comprehensive Business Strategy



Implementing Business Process Improvement





AETC Market Research

In addition to case studies, trade journals, IFMA data, etc., the following companies were interviewed on-site:

- Delta Airlines
- Johnson & Johnson
- Sun Microsystems
- Pacific Gas and Electric
- Bank of America
- Hewlett-Packard
- IBM
- Monsanto
- Nike
- Tektronix
- Pacific Gas and Electric
- BellSouth
- AmSouth
- McNeil Pharmaceuticals
- Applied Materials
- Ameritech
- Southwest Airlines
- Pacific Bell



Customer Sourcing Priorities



Top Purchasing Priorities Last 5 Years

- Cost reduction initiatives
- Reduction in the number of suppliers
- Longer term supplier relationships
- Longer term contracting
- Quality improvement initiation
- Gross functional terms for sourcing decisions
- Supplier performance evaluation

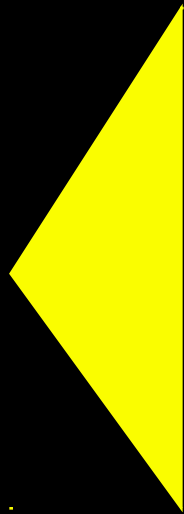
Top Purchasing Priorities Projected

- Supplier performance evaluation
- Reduction in the number of suppliers
- Cost reduction initiatives
- EDI with suppliers
- Quality improvement initiatives
- Longer term relationships
- Gross functional terms for sourcing decisions



Study Of 96 Supplier Partnerships With Fortune 500 Companies

- Reduced Total Cost of Ownership
- Improved Quality



- Prices at or below market
- Quality increased by 33%
- Schedule performance increased by 14%
- Lead time dropped by 33%

Benchmark contacts with IBM, Colgate-Palmolive and others that had built strategic supplier partnerships reported that cost of facilities services decreased by 25% while process effectiveness and customer satisfaction increased



Business Strategy Building Blocks



A-76 Competitive Sourcing

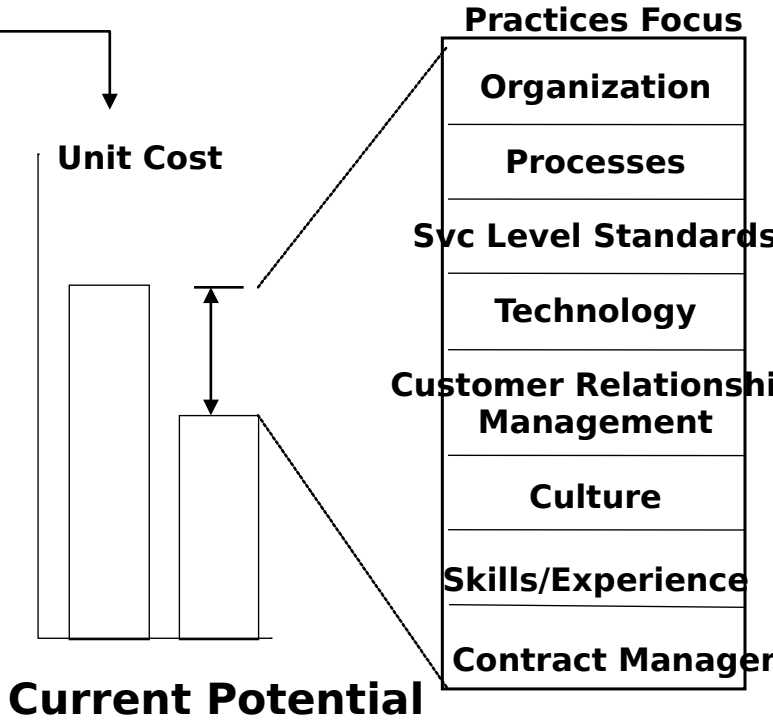
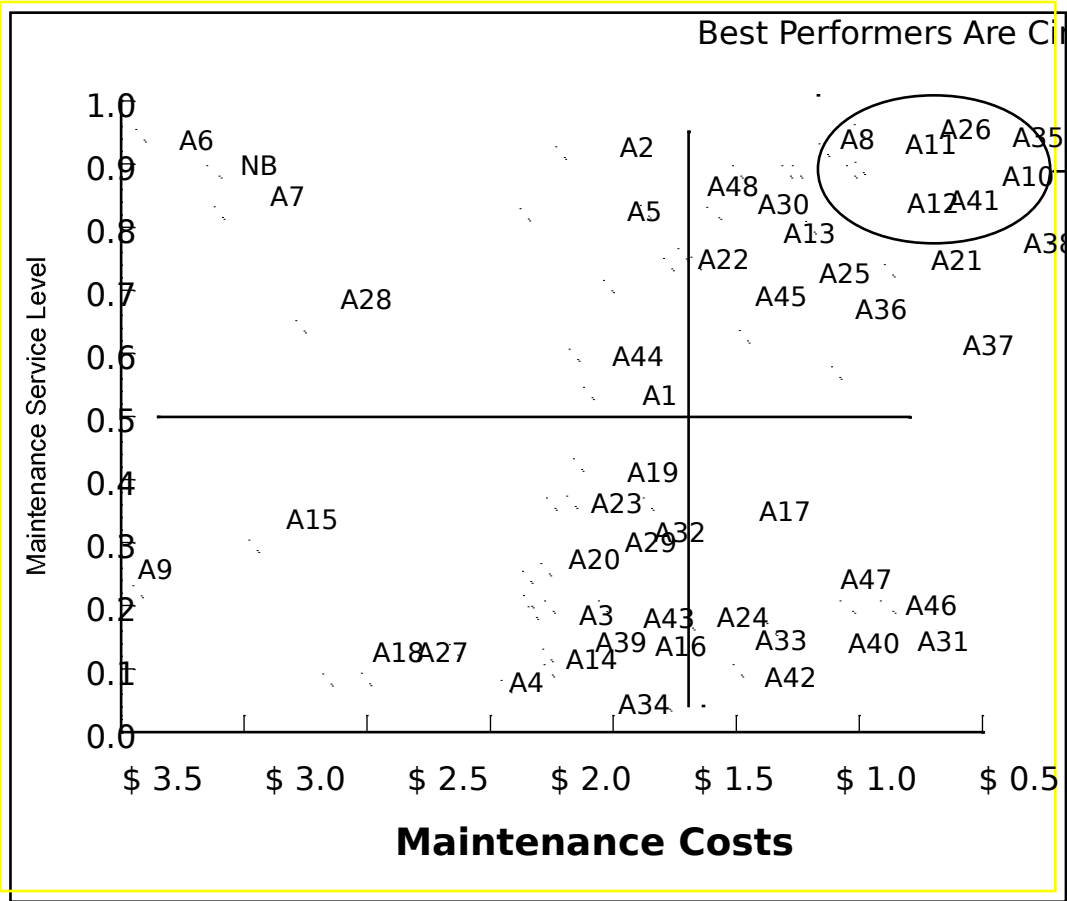
- Hire the experts (insight vs. oversight)
- Customer / supplier partnership
- Consolidate requirements & specify outcomes
- Benchmark with like industry customers
- Use contract type/performance incentives effectively
- Continuous savings while improving quality
- Supplier must be the primary "performance manager" – cost

AF Competitive Sourcing Goals

Few Large, A-76 Studies

Few contracts or MEO

Administrative Facilities - Maintenance Cost/SF Maintained





Results ~ 22 Commercial Services



- Resource Management
- Relocation Services
- Grounds and Site Maintenance
- Maintenance & Operations
- Validation and Document Control
- Environmental Compliance
- Energy Management and Utilities
- Mail Services
- Visual Information Services
- Engineering Services
 - (Design & Construction)
- Custodial and Housekeeping
- Airfield Support
- Emergency Management
- Transportation
- Human Resources
- Marketing and Publicity
- Lodging and Hospitality
- Information Technology
- Supply Services and Fuels
- Community Services
- Space Management
- Food Services



Cross Flight Teams Build:



- For the service under consideration:
 - Summarize overall expectations for the service
 - Define outcomes for:
 - Customers, Financial, Safety, Process Management
- Narrow specificity of the initial outcomes - e.g define what “clean” means
- Define customer care expectations
- Define metrics - considering each of the four quadrants of the balanced scorecard
- Listing of data necessary for suppliers to know in order to make a meaningful bid



Customer Focus Groups



Key Stakeholder Interviews To Determine Performance Priorities And Objectives From Their Viewpoint

Stakeholders identified:

- AU Commander
- Wing Commander
- School Commandants (13) - ASBS, ACSC, AFDC, AFIT, etc.
- Tenant Organizations (7) - 908th, 54th, SS6, DISA, DECA, AAFES, Hospital
- AETC (2-3 nominees)

Interview Focus:

- Strategic MAFB objectives
- Performance priorities
- Mission
- Expectations
- Criteria for Study Success



Conversion to Commercial



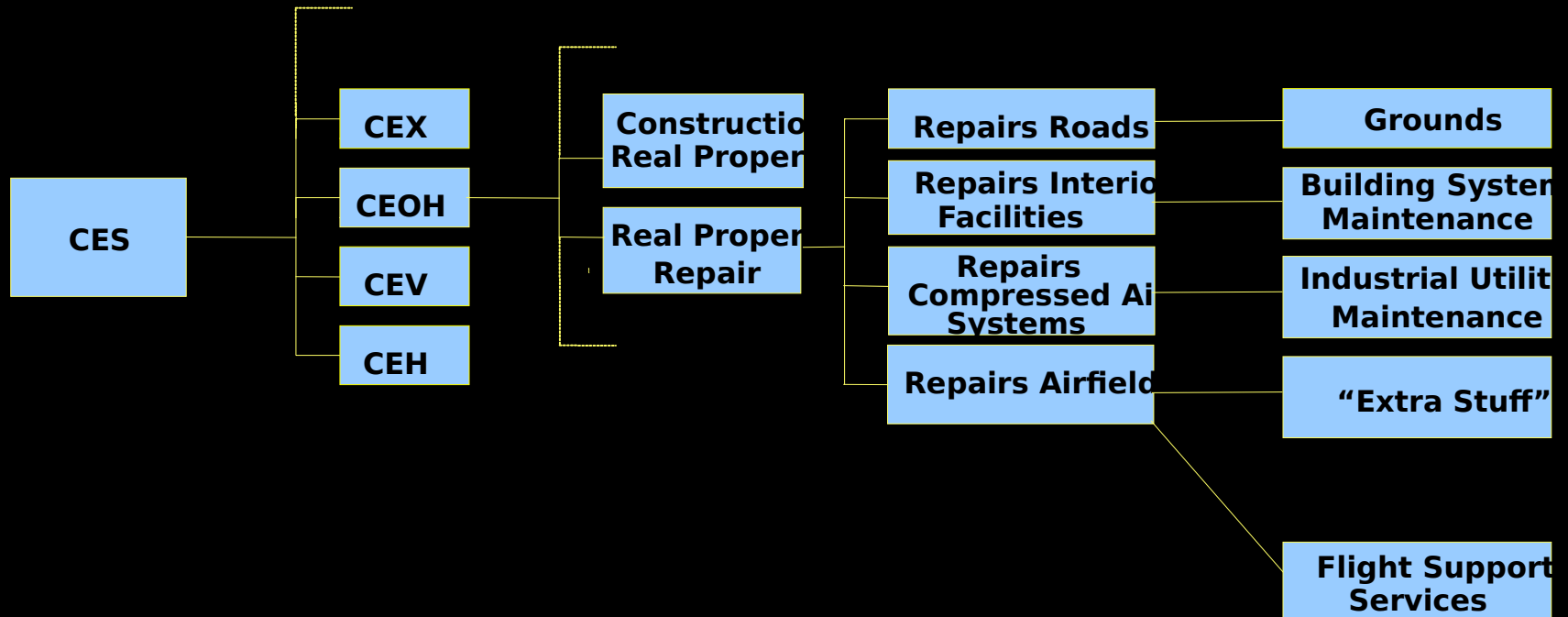
Squadron

Flight

Section

Activity

"Bins"





Purpose of the PRD

- Easy to understand
- Focuses on customer expectations and outcomes desired
- Articulates the strategic vision - obtained from stakeholder interviews
- Provides strategic objectives derived from the vision - stakeholder interviews
- Provide outcome-based description of 22 services - obtained through cross flight teams
- Provides performance measurement expectations
 - By function
 - Base-wide



Structure of the PRD

Summary of Expectations

All Service Requirements

Individual Service Areas

Description of Service

Service Delivery Summary

General Information

Appendices

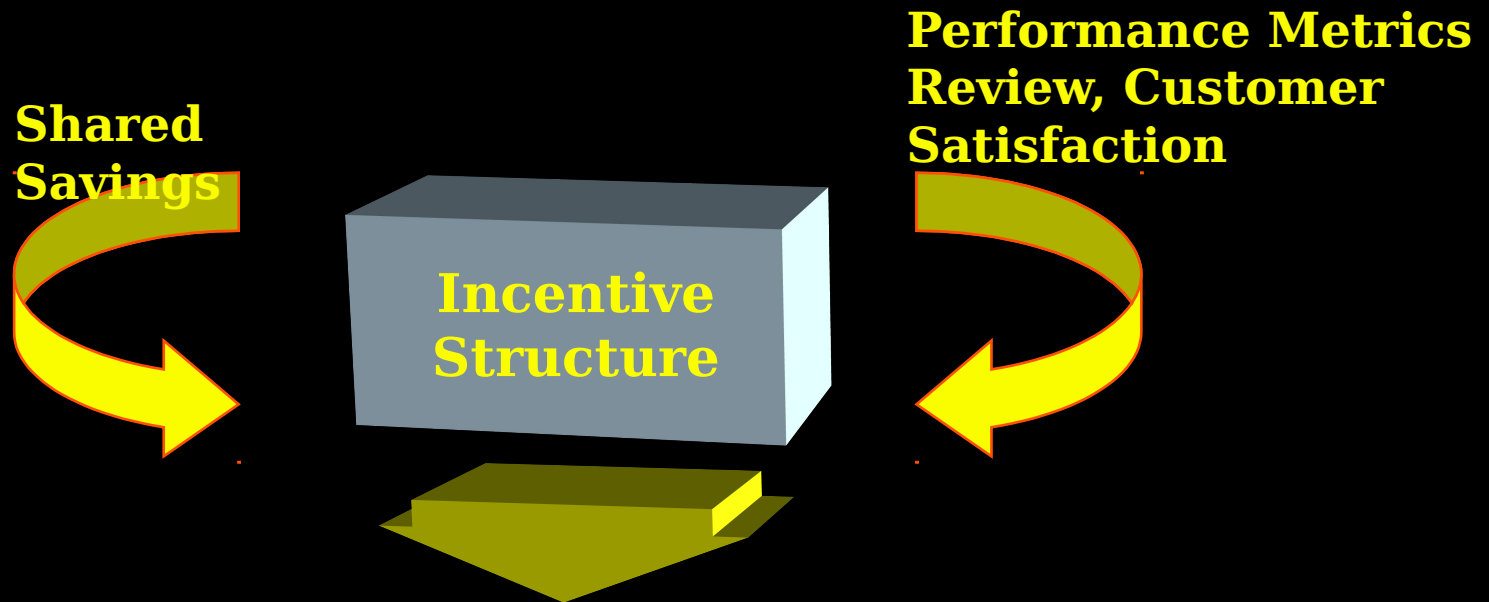
Performance Metrics



- Outcome Based
- Customer Interviews
- Cross Functional Focus



Shared Savings And Performance A Balanced Supplier Incentive



Dual Focus Supplier

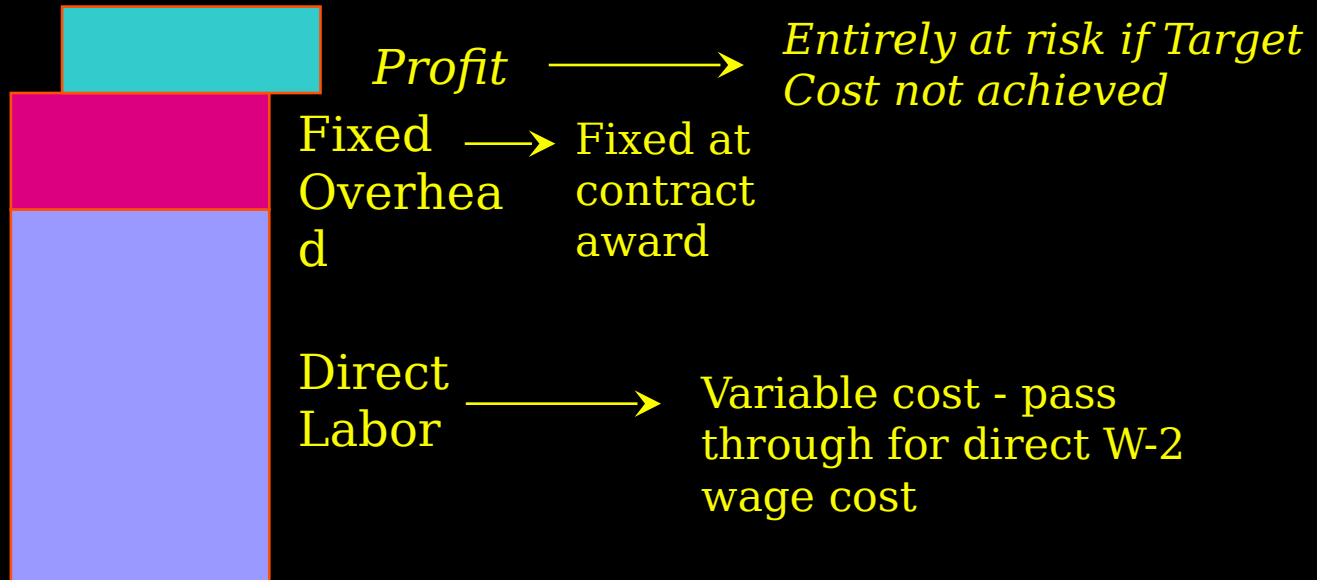
Behavior

- *Reduce total Government Spending through continuous improvement*
- *Meet Government expectations for service performance*



Maxwell BOS Contract Structure

Supplier Fee Structure





By The Difference Between The Supplier's Bid And Actual Cost



	A	B	C
	Suppli er Bid	Actual Cost	Incenti ve \$
Year 1	A_1	B_1	$A_1 - B_1$
Year 2	A_2	B_2	$A_2 - B_2$
Year 3	A_3	B_3	$A_3 - B_3$
Year 4	A_4	B_4	$A_4 - B_4$
Year 5	A_5	B_5	$A_5 - B_5$
Year 6	A_6	B_6	$A_6 - B_6$

• Target Fee
added to
incentive
pool

• Supplier
will earn
profit on
the
incentive
pool

- Direct Cost
- Fixed Overhead

- Creates profit component of supplier fee



Sample Fee Pool Calculation

Actuals

	Bid	Underrun	Overrun
Target Cost	50	46	54
Target Fee	5		
Incentive Pool		+4	-4
Share Ratio 50/50		+2	-2
Target Fee		5	5
Available Incentive		7	3



Quality Performance Index



- Set to 100
 - 35 Points for Customer Satisfaction Surveys
 - 35 Points for Metrics
 - 30 Points for Small Business Goals
- Contractor Proposes Customer Survey Method
- Performance Management Council picks metrics for measurement, up to 10% excluded at the discretion of the PMC
- Total Points ratio applied to adjusted target fee
- PMC may amend QPI over life of contract



Earned Fee



Available Incentive	7	3
Total QPIs	89.75	89.75
Earned Fee	\$6.282	\$2.692



Budget to Actual Comparison



Actuals

	Bid	Underrun	Overrun
Target Cost	50	46	54
Target Fee	5	6.282	2.692
Total Budget	55	52.282	56.692
Net Govt.		2.718	-1.692



MEO Budget to Actual Comparison



- MEO QPIs are tracked only for comparison to other installations

Actuals

	Bid	Underrun	Overrun
Target Cost	55	51	59
Target Fee	0		
Incentive Pool		+4	-4
Share Ratio 50/50*		+2	-2
Total Govt Costs		51	59
Net to Govt		4.0	-4.0

* Share ratios do not apply to MEO



Performance Management Plan



- More than just a typical CPI arrangement
 - Incentive Fee motivates cost reduction
 - QPIs ensure focus on performance
 - Performance Management Plan includes flexibility to adjust performance goals
- Contract Surveillance included in PMP
 - Metrics for key areas of performance
 - Customer satisfaction across all areas
 - PMO can always do QAE-type surveillance
- Supplier responsible for Performance Mgt



Questions?